

Message Text

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TO ALL EUROPEAN DIPLOMATIC POSTS

AMEMBASSY BRASILIA

C O N F I D E N T I A L STATE 062703

FOL TEL SENT ACTION SECSTATE FROM LISBON MARCH 01:

QUOTE C O N F I D E N T I A L LISBON 1336

DEPARTMENT REPEAT AS DESIRED

E. O. 11652: GDS

TAGS: PFOR, US, PO

SUBJECT: 1976 ANNUAL ASSESSMENT

I. THE U.S. INTEREST

A. WHERE PORTUGAL FITS IN AND WHY: PROBABLY NO COUNTRY OF ITS SIZE GAVE THE U.S. AND NATO MORE HEART-BURN LAST YEAR THAN PORTUGAL. IT WAS A MICROCOSM OF THE PROBLEMS THAT COULD AND SOMETIMES DID AFFLICT THE SOUTHERN FLANK OF NATO.

1. LOCATED IN A KEY GEOGRAPHIC POSITION ON THE APPROACHES TO THE MEDITERRANEAN, PORTUGAL ALSO CONTROLS THE STRATEGIC AZORES. AS ONE OF SPAIN'S TWO NEIGHBORS, EVENTS IN PORTUGAL ARE WATCHED CLOSELY BY THE SPANISH, WHO ARE CONCERNED THAT PORTUGAL NOT BECOME A SUBVERSIVE BASE FOR ANTI-GOS ELEMENTS.

2. WE ARE NOW IN A POSITION TO HOPE THAT PORTUGAL CAN
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SUCCESSFULLY MOVE TOWARDS A STABLE DEMOCRATIC SOCIETY, MAKING A POSITIVE CONTRIBUTION TO THE WESTERN ALLIANCE. BUT THERE ARE WORRIES: POLITICAL INSTITUTIONS ARE FRAGILE, THE SECURITY APPARATUS IS IN DISARRAY; THE

ECONOMY IS IN A STATE OF NEAR COLLAPSE; THE PCP CONTINUES ACTIVE IN KEY SECTORS SUCH AS LABOR AND THE PRESS; AND THERE IS STILL A COMMUNIST PRESENCE IN THE GOVERNMENT. THE LATTER IS NOT ONLY A SECURITY PROBLEM BUT RAISES PHILOSOPHICAL AND STRATEGIC QUESTIONS WHICH IMPINGE ON U.S. INTERESTS IN OTHER NATO COUNTRIES.

B. KEY U.S. INTERESTS: OUR INTERESTS ARE FUNDAMENTALLY THOSE OF U.S. NATIONAL SECURITY. WE SEEK THE NECESSARY STABILITY AND OPEN POLITICAL PROCESS TO ENABLE PORTUGAL TO BE AN ACCEPTED PARTNER IN THE ATLANTIC ALLIANCE AND ASSURE US CONTINUED ACCESS TO BASE FACILITIES IN THE AZORES. ECONOMIC DEVELOPMENT, A DESIRABLE GOAL IN ITSELF, IS A PRECONDITION TO SOCIAL AND POLITICAL STABILITY.

II. NEAR-TERM POLICY OBJECTIVES

A. POLITICAL: CONSOLIDATE GAINS MADE BY ANTI-COMMUNIST ELEMENTS, AND PROVIDE THE SUPPORT NEEDED TO ENABLE THEM TO REMOVE THE REMAINING COMMUNISTS FROM THE GOVERNMENT AND KEY SECTORS.

B. POLITICAL-MILITARY: A PROFESSIONAL, NATO-ORIENTED MILITARY FORCE ADEQUATELY EQUIPPED, WELL-TRAINED AND CAPABLE OF PROVIDING INTERNAL DEFENSE FOR A PRO-WESTERN CONSTITUTIONAL DEMOCRACY.

C. BASES: CONTINUED UNDIMINISHED ACCESS TO BASE FACILITIES IN THE AZORES.

D. ECONOMIC: ECONOMIC RECOVERY THROUGH AID, TECHNICAL ASSISTANCE, AND PRIVATE INVESTMENT; ENCOURAGE EUROPEANS TO DO LIKEWISE. REASONABLE AND ACHIEVEABLE ECONOMIC OBJECTIVES OVER THE NEXT 2 TO 3 YEARS ARE:

-- A REDUCTION IN THE BALANCE OF PAYMENTS DEFICIT FROM
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DOLS 1.2 BILLION PER YEAR TO SOMETHING ON THE ORDER OF DOLS 400 MILLION. THIS WILL INVOLVE LARGE SCALE, RAPIDLY DISBURSED FOREIGN ASSISTANCE, REALISTIC DEVALUATION OF THE ESCUDO, AND CONTINUING WAGE CONTROL AND AUSTERITY.

-- A RECOVERING PRIVATE SECTOR WITH INCENTIVES AND PROTECTION FOR BOTH DOMESTIC AND FOREIGN INVESTMENT.

-- AN INVIGORATED PUBLIC INVESTMENT PROGRAM TO MEET SOME OF THE DEFICIT IN SOCIAL INFRASTRUCTURE IN AREAS SUCH AS HEALTH, EDUCATION, HOUSING AND AGRICULTURE.

-- A MARKED IMPROVEMENT IN THE ABILITY OF PORTUGUESE

INSTITUTIONS AND GOVERNMENT AGENCIES TO PLAN AND ADMINISTER
A MODERN DEVELOPING ECONOMY.

III. U.S. POLICY: A RETROSPECTIVE LOOK

A. IN SUM, WE WENT FROM A POTENTIAL KERENSKY TO BELA
KUN-HAL. LOOKING BACK OVER THE PAST YEAR, U.S. INTERESTS
IN PORTUGAL FARED BETTER THAN ANYONE HAD A RIGHT TO EXPECT.
FROM THE DARK DAYS OF MARCH-APRIL 1975, WHEN POWER SEEMED
TO BE WITHIN THE GRASP OF THE COMMUNISTS AND THOSE PREPARED
TO DO THEIR BIDDING, PORTUGAL IS BACK ON THE ROAD TOWARD A
MODERATE PLURALISTIC GOVERNMENT. NON-COMMUNIST ELEMENTS WITHIN
THE ARMED FORCES AND THE DEMOCRATIC POLITICAL PARTIES,
HEARTENED BY THE APRIL 1975 ELECTION RESULTS, WENT TO THE
MAT WITH THE COMMUNIST-LEANING GONCALVES REGIME.
IN AUGUST, GONCALVES WAS FORCED OUT AND REPLACED BY
THE MODERATE ANTI-COMMUNIST, PINHEIRO DE AZEVEDO. YET
THE GOVERNMENT REMAINED VIRTUALLY PARALYZED UNTIL THE
ANTI-COMMUNIST RICOCHET WHICH FOLLOWED AN ABORTIVE
LEFTIST COUP LAST NOVEMBER. WHILE THERE HAVE BEEN
VAST IMPROVEMENTS IN THE POLITICAL AND SECURITY SCENE,
THE GOVERNMENT STILL LACKS THE POPULAR BASE TO TAKE THE MAJOR
STEPS TO PUT THE COUNTRY ON THE ROAD TO ECONOMIC RECOVERY.

B. THE OPERATIVE FORMULA FOR U.S. POLICY WAS THAT
PORTUGAL WAS FIRST AND FOREMOST A EUROPEAN PROBLEM.
OUR EFFORTS WERE DIRECTED TOWARDS GALVANIZING THE
EUROPEANS INTO CONCERTED ACTION VIA A SORT OF "PREVENTIVE
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ALARMISM." IT WORKED. THE ELECTIONS OF 1975 WHICH
PROVIDED THE SPUR FOR REVERSING THE PRO-COMMUNIST TREND MIGHT NEVER
HAVE TAKEN PLACE IF IT HAD NOT BEEN
FOR EUROPEAN AND U.S. INSISTENCE. ALSO IMPORTANT WAS
THE SIGNAL SENT BY THE U.S. AND THE EUROPEANS, THE
LATTER AT U.S. URGING, THAT SUBSTANTIAL AID WOULD BE FORTH-
COMING ONLY IF PORTUGAL STOPPED FLIRTING WITH COMMUNISM
AND RETURNED TO THE EUROPEAN CAMP. A MODEST U.S. AID
PROGRAM WHICH GAVE US POLITICAL LEVERAGE, AND QUIET
PLEDGES OF U.S. SUPPORT TO THE MODERATES AT THE CLIMAX
OF THE STRUGGLE WERE ALSO PIVOTAL. THE FORMULA
SHOULD BE CONTINUED: EUROPEANS OUT IN FRONT WITH THE
U.S. PROVIDING ENOUGH DISCREET SUPPORT AND VISIBLE AID
TO INDICATE WE STAND SQUARELY BEHIND THE EFFORT TO
ESTABLISH A PRO-WESTERN DEMOCRACY.

IV. FUTURE TRENDS AND PROBLEMS

A. INTERNAL

1. MILITARY-POLITICAL ROLE:

(A) HAVING OVERTHROWN THE DICTATORSHIP AND SHED THEIR PRINCIPAL MISSION OF DEFENDING THE COLONIES, THE PORTUGUESE MILITARY FIND THEMSELVES RE-EXAMINING THEIR ROLE. THE "OPERATIONALS", ASSOCIATED WITH ARMY CHIEF OF STAFF GENERAL EANES, FAVOR A RETURN TO A MORE TRADITIONAL PROFESSIONAL MILITARY ROLE -- NOT, HOWEVER, FULLY GIVING UP THEIR MISSION AS WATCHDOG AND PROTECTOR OF THE REVOLUTION. THE "POLITICOS," ASSOCIATED WITH FOREIGN MINISTER ANTUNES, WOULD PREFER AN ACTIVE POLITICAL ROLE FOR THE MILITARY AS THE DRIVING FORCE BEHIND THE REVOLUTION.

(B) THE "OPERATIONALS" PRESENTLY PREDOMINATE, BUT IF THEY ARE TO SUCCEED POLITICALLY THEY MUST MAINTAIN THEIR PROFESSIONAL MILITARY BASE BY DEFENDING AND BUILDING A NEW MISSION FOR THE ARMED FORCES. GENERAL EANES HAS MADE TWO MAJOR STRIDES TOWARDS THIS GOAL WITH HIS DECISION TO REDUCE THE ARMY TO 26,000 MEN AND TO BUILD A NATO-COMMITTED BRIGADE AS THE KEY ELEMENT IN THE ARMY

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STRUCTURE. THE BRIGADE, INCLUDING AIR SUPPORT, IS TO SERVE AS PORTUGAL'S COMMITMENT TO THE CINCSOUTH RESERVE. IT WILL ALSO PROVIDE AN ENHANCED CAPACITY FOR VITAL INTERNAL DEFENSE. U.S. AND ALLIED ASSISTANCE WILL BE CRITICAL IN HELPING THE MILITARY TO MAKE THE TRANSITION TO A DISCIPLINED PROFESSIONAL ROLE, WITH A CAPACITY FOR DEFENDING CONSTITUTIONAL GOVERNMENT.

(C) NATO SECRETS: WITH THE PORTUGUESE ARMED FORCES UNDER NON-COMMUNIST LEADERSHIP, THE QUESTION OF NATO SECRETS HAS COME TO THE FORE. THIS LEADERSHIP BELIEVES IT HAS DEMONSTRATED ITS COMMITMENT TO NATO BY THE DRAMATIC INTERNAL CHANGES IT HAS ENGINEERED. AN ABNORMAL DELAY IN GRANTING THE GOP RENEWED ACCESS TO CLASSIFIED INFORMATION WILL HAVE ADVERSE POLITICAL REPERCUSSIONS.

2. THE ECONOMY:

(A) PORTUGAL'S POLITICAL FUTURE WILL BE SIGNIFICANTLY CONDITIONED BY THE PACE OF ECONOMIC RECOVERY. IF THE CURRENT ECONOMIC DETERIORATION CONTINUES WITHOUT SUFFICIENT MEASURES BEING TAKEN, THE GNP WILL DECLINE BY ANOTHER 10 PERCENT IN 1976; PER CAPITA REAL INCOME WILL FALL 15 PERCENT; CONSUMPTION DECLINE 15-20 PERCENT; THE RATE OF INFLATION DOUBLE TO 45-50 PERCENT; UNEMPLOYMENT RISE TO 20 PERCENT; THE GOVERNMENT BUDGET DEFICIT INCREASE TO \$1.5 BILLION; THE TRADE DEFICIT WIDEN TO \$2.5 BILLION; AND THE BALANCE OF PAYMENTS DEFICIT INCREASE TO AS MUCH AS \$1.8 BILLION. THE ECONOMIC ILLUSIONS FOSTERED SINCE 1974 HAVE LEFT THE PORTUGUESE

PUBLIC PSYCHOLOGICALLY UNPREPARED TO ACCEPT THE HARSH ECONOMIC MEDICINE WHICH PLANNERS AND POLITICIANS ALIKE CONCEDE IS REQUIRED TO REVERSE THE PRESENT DETERIORATION. ALTHOUGH PORTUGAL HAS AN ENORMOUS GOLD RESERVE FOR ITS SIZE, IT HAS LEARNED TO ITS SORROW THAT GOLD IS A FLAWED ASSET. EVEN IF AUSTERITY MEASURES ARE RIGOROUSLY APPLIED, CONSIDERABLE TIME WILL BE NEEDED BEFORE ECONOMIC RECOVERY GAINS MOMENTUM.

(B) FOREIGN ECONOMIC ASSISTANCE CAN PLAY A CRUCIAL
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ROLE IN CUSHIONING THE IMPACT OF BELT-TIGHTENING MEASURES WHILE CHANNELING INVESTMENT TO PRODUCTIVE SECTORS OF THE ECONOMY. THIS AID WILL ALSO TIE PORTUGAL MORE CLOSELY TO WESTERN EUROPE AND THE UNITED STATES, THEREBY STRENGTHENING THE BONDS THAT LINK PORTUGAL WITH THE ATLANTIC ALLIANCE. THE ROLE OF THE WESTERN EUROPEANS, ESPECIALLY THE GERMANS, IS THE KEY TO ASSISTING PORTUGAL'S SHORT-TERM ECONOMIC RECOVERY AND LONG-TERM ASSOCIATION WITH THE EC.

3. TRANSITION TO REPRESENTATIVE GOVERNMENT:

(A) WITH NATIONAL ASSEMBLY ELECTIONS SCHEDULED FOR APRIL 25 AND PRESIDENTIAL ELECTIONS FOR JUNE, PORTUGAL WILL TAKE THE LAST MAJOR STEPS ALONG THE ROAD TO REPRESENTATIVE GOVERNMENT. COMPLICATING THIS TRANSITION IS THE INSTITUTIONAL PROBLEM ARISING FROM THE DRAFT CONSTITUTION WHICH WILL BE FAR TO THE LEFT OF THE COUNTRY'S MOOD, PLUS THE FACT THAT MOST OF THE POLITICAL PARTIES, WITH THE EXCEPTION OF THE PCP, DO NOT HAVE A CLEARLY DEFINED IDEOLOGY. MANY OF PORTUGAL'S POLITICAL-ECONOMIC INSTITUTIONS STILL BEAR THE MARK OF THE HECTIC PERIOD WHEN LEFTWING FORCES EXERTED AN INFLUENCE GREATLY OUT OF PROPORTION TO THEIR NUMERICAL STRENGTH.

(B) THE DEMOCRATIC PARTIES TEND TO REFLECT INDIVIDUAL LEADERSHIP MORE THAN IDEOLOGY. OVER A PERIOD OF TIME WE WOULD EXPECT THE AMPORPHOUS CENTER REPRESENTED PRINCIPALLY BY THE PPD TO BIFURCATE AND SHIFT TO THE RIGHT, THEREBY STAKING OUT A CLEAR POSITION IN THE POLITICAL SPECTRUM. THE SOCIALISTS COULD ALSO SPLIT, WITH THEIR RIGHTWING EITHER ABSORBING OR AMALGAMATING WITH LEFTWING PPD ELEMENTS AND THEIR LEFTWING ADOPTING A MORE RADICAL POSTURE. THE CONSERVATIVE CDS, IDEOLOGICALLY THE MOST HOMOGENEOUS OF THE NON-COMMUNIST PARTIES, IS THE LEAST SUBJECT TO POTENTIAL SPLITS.

(C) THE ELECTIONS PROMISE TO NARROW LAST YEAR'S GAP BETWEEN THE VOTE OF THE DEMOCRATIC PARTIES: THE CDS

IS CERTAIN TO GAIN AND THE SOCIALISTS ARE LIKELY TO
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LOSE; THE PPD COULD BE THE SURPRISE, EITHER GAINING SUBSTANTIALLY OR CONCEIVABLY FALLING OFF. THE SOCIALISTS CLAIM THEY WILL ESCHEW POST-ELECTION COALITIONS, BUT THIS COULD BE A TACTIC. THE MODERATE WING OF THE SOCIALISTS AND THE PPD ARE DIVIDED MORE BY THE PERSONALITIES OF THEIR LEADERS THAN THEY ARE BY PARTY DOCTRINE. NOR HAVE THE SOCIALISTS EXPRESSLY REJECTED A COALITION WITH THE CDS, ALTHOUGH THIS WOULD BE UNCOMFORTABLE IDEOLOGICALLY. THE PS SEEMS DETERMINED AT THIS POINT NOT TO JOIN WITH THE PCP IN A FUTURE GOVERNMENT. A PPD-CDS COALITION WOULD BE A REAL POSSIBILITY IF BOTH PARTIES MAKE A STRONG SHOWING.

(D) IN ANY EVENT, THE POST-ELECTION STRUGGLE TO FORM A GOVERNMENT IS LIKELY TO BE INTENSE AND POSSIBLY DIVISIVE. THERE IS A REAL POSSIBILITY OF A POST-ELECTION CRISIS IN WHICH NO GOVERNMENT, OR ONLY A WEAK GOVERNMENT, COULD BE FORMED. SOME KEY SOCIALISTS, FOR EXAMPLE, ARE PLANNING A GO-IT-ALONE STRATEGY IN WHICH THE SOCIALISTS WOULD SEEK TO GOVERN WITH LESS THAN 40 PERCENT OF THE VOTE BY SCRAPING TOGETHER DISSIDENT ELEMENTS OF OTHER PARTIES, AND FLESHING OUT THE CABINET WITH TECHNICIANS AND MILITARY FIGURES.

(E) THE PRESIDENTIAL ELECTION: IT HAS BEEN TACITLY AGREED THAT THE NEXT PRESIDENT WILL BE SELECTED FROM THE MILITARY. NO CONSENSUS EXISTS WITHIN THE MILITARY ALTHOUGH CONTENDERS ARE BEGINNING TO EMERGE. THE PROCESS OF SELECTION WILL AGAIN TEST THE MILITARY'S UNITY AT A TIME WHEN THERE ARE RUMBLES OF RIGHTWING ACTIVITY WITHIN THE ARMED FORCES. THE SOCIALISTS STILL HARBOUR A FAINT HOPE THAT AN IMPASSE WITHIN THE MILITARY COULD OPEN THE DOOR TO A CIVILIAN CANDIDATE.

(F) THE POLITICAL COMPACT: THE POLITICAL COMPACT BETWEEN THE PARTIES AND THE ARMED FORCES MOVEMENT GIVES A FORMAL POLITICAL ROLE TO THE REVOLUTIONARY COUNCIL FOR THE NEXT FOUR YEARS. THE RC WILL HAVE FULL POWERS IN THE MILITARY FIELD AND A VOICE, WITH THE PRESIDENT AND THE NATIONAL ASSEMBLY, IN DECIDING THE CONSTITUTIONALITY OF CIVILIAN MATTERS. THE COMPACT
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IS ESSENTIALLY A CARRYOVER FROM THE DAYS WHEN THE MILITARY WAS OMNIPOTENT. IT DOES NOT NOW REFLECT THE STRENGTH OF THE POLITICAL PARTIES AND THEIR WILLINGNESS TO GO IT ALONE WITHOUT MILITARY TUTELAGE. THIS COULD

BE A SOURCE OF FUTURE DISSENSION.

(G) WHILE SUBSTANTIAL PROGRESS HAS BEEN MADE, THE REMAINING PROBLEMS ARE MANIFOLD. THEY RANGE FROM CHOICE OF A PRESIDENT, TO ECONOMIC RECOVERY, TO A REALIGNMENT OF POLITICAL INSTITUTIONS, TO CONTAINING FAR RIGHT EXCESSES. A MISHAP COULD STILL TOPPLE THE ENTIRE STRUCTURE. THE COMMUNISTS, WITH AMPLE RESOURCES IN THE UNIONS, THE MEDIA, AND THE BUREAUCRACY CONTINUE THEIR SUBVERSIVE EFFORTS, READY TO STEP IN AGAIN IF THE OPPORTUNITY PRESENTS ITSELF.

4. THE COMMUNIST PARTY:

(A) ALTHOUGH IT IS WIDELY PREDICTED THAT THE PCP PERCENTAGE OF THE VOTE WILL DROP FROM 12.5 TO SOMEWHERE BETWEEN 5 AND 10 PERCENT IN THE NATIONAL ASSEMBLY ELECTIONS, MOST OBSERVERS ARE NOT TAKING INTO ACCOUNT THE LIKELY REDUCED VOTER TURNOUT FROM THE 92 PERCENT OF 1975. TRADITIONAL PCP DISCIPLINE COULD LEAD TO THE COMMUNISTS MAINTAINING THEIR SHARE OF THE VOTE ALTHOUGH THEIR ABSOLUTE VOTE MAY FALL. IN ADDITION, THE MDP WILL NOT RUN THIS YEAR, THROWING MUCH OF ITS FOUR PERCENT TO THE PCP.

(B) THE PCP'S AGGRESSIVE HARD-LINE POSTURE THUS FAR HAS PROVED TO BE ITS UNDOING. THERE IS SOME EVIDENCE, HOWEVER, THAT SELF-CRITICISM IS CURRENTLY UNDERWAY WITHIN THE PARTY. THIS HAS LED TO SPECULATION THAT THE PCP MAY JOIN OTHER WESTERN EUROPEAN COMMUNIST PARTIES IN RENOUNCING THE AGGRESSIVE TACTICS IT PURSUED OVER THE PAST TWO YEARS. SUCH A DEVELOPMENT, IF IT CAME BEFORE THE ELECTIONS, WOULD MAKE THE PARTY SOMEWHAT MORE ATTRACTIVE POLITICALLY. A MORE MODERATE POLITICAL STANCE, ESPECIALLY IF COUPLED WITH A RESPECTABLE ELECTION PERFORMANCE, WOULD BUTTRESS THE PCP'S EFFORTS TO WOO THE SOCIALISTS.
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(C) YET THIS TRANSITION, IF INDEED UNDERWAY, WILL NOT BE EASY. IN OUR VIEW, THE PARTY HAS BEEN CHASTENED, BUT NOT TAMED. ITS LEADERSHIP, ESPECIALLY CUNHAL, WILL BE HARD TO DISLODGE. IN VIEW OF MOSCOW'S EMPHASIS ON "PROLETARIAN INTERNATIONALISM" AT THE CPSU CONGRESS, IT IS DOUBTFUL THAT THE SOVIETS DESIRE SUCH A DEVELOPMENT; AND THE PCP COUNTS ON THE USSR FOR FINANCIAL SUPPORT AND AS A SAFEHAVEN IF THINGS GO BADLY. WE NOTE CUNHAL WAS GIVEN THE RED-CARPET TREATMENT AT THE CPSU CONGRESS -- HARDLY A SURPRISE IN VIEW OF HIS SYCOPHANTIC, MOSCOW-LINE SPEECH. ON BALANCE WE THINK HE WILL STAY.

5. THE SUBVERSIVE RIGHT:

(A) THE SUBVERSIVE RIGHT IS ORGANIZED CLANDESTINELY BOTH IN PORTUGAL AND OUTSIDE THE COUNTRY, ESPECIALLY IN SPAIN. HAVING SUFFERED A SEVERE DECLINE IN THEIR ECONOMIC AND SOCIAL FORTUNES SINCE 1974 THEY ARE STILL DETERMINED TO MAKE A COMEBACK. BASICALLY UNSYMPATHETIC TO WESTERN DEMOCRATIC INSTITUTIONS, THEY LONG FOR A RETURN TO THE GOOD OLD DAYS OF AN AUTHORITARIAN REGIME.

(B) THERE ARE TWO PRINCIPAL ULTRA-RIGHT, SUBVERSIVE GROUPS -- THE PORTUGUESE DEMOCRATIC LIBERATION MOVEMENT (MDLP) AND THE PORTUGUESE LIBERATION ARMY (ELP). THEY MAINTAIN LOOSE CONTACT WITH EACH OTHER AND ARE QUIETLY ALLOWED TO FUNCTION IN SPAIN BY THE SPANISH GOVERNMENT. THE UPPER ESCHELON OF THE MDLP WOULD APPARENTLY PLAN TO USE SPINOLA AS A RALLYING POINT ON THE ROAD TO POWER, ALTHOUGH IT IS BY NO MEANS CLEAR THAT SPINOLA SHARES THEIR AUTHORITARIAN VIEWS. BOTH GROUPS COULD TAKE ADVANTAGE OF UNREST AMONG IMPORTANT SEGMENTS OF THE POPULATION SUCH AS THE ANGOLAN RETURNEES -- THUS FAR AN UNKNOWN POLITICAL QUANTITY -- OR DISSATISFIED FARMERS IN THE NORTH. THEY DO NOT HAVE THE SUPPORT NEEDED FOR A SUCCESSFUL COUP, BUT THEIR TERRORIST AND OTHER ANTI-GOP EFFORTS ARE LIKELY TO CONTINUE. RECOGNIZING THIS, THE "OPERATIONALS" IN THE ARMY HAVE ESTABLISHED COMMUNICATIONS WITH THE ULTRA-RIGHT IN AN EFFORT TO CONTAIN THEM.
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(C) WITH THEIR BLUNDERING TENDENCY TO OPEN THE DOOR FOR THE COMMUNISTS, DEMONSTRATED IN THE FIASCO OF MARCH 11, 1975, THE ULTRA-RIGHT CONTINUES TO BE BOTH A DESTABILIZING ELEMENT AND A PROBLEM FOR THE U.S. WHILE THE USG HAS SUCCEEDED TO SOME DEGREE IN SHEDDING THE COMMUNIST-INSPIRED IMAGE OF SUPPORTING THE ULTRA-RIGHT, WE WOULD INEVITABLY BE LINKED TO ANY MISADVENTURE BY THESE GROUPS. IT WOULD BE CONCLUDED THAT THE USG WAS UNWILLING TO ACCEPT A LEFTIST GOVERNMENT, NO MATTER HOW MODERATE IN PRACTICE, AND THIS SCENARIO WOULD TEND TO DRIVE THE SOCIALISTS INTO THE ARMS OF THE COMMUNISTS -- IN PORTUGAL AND POSSIBLY IN OTHER EUROPEAN COUNTRIES AS WELL.

B. EXTERNAL:

1. AZORES:

(A) THE AZORES AFFECT THE U.S. IN TWO WAYS: WE HAVE A STRONG INTEREST IN MAINTAINING ACCESS TO OUR BASE FACILITIES; AND WE DO NOT FAVOR AZOREAN INDEPENDENCE UNDER CONDITIONS WHICH COULD DAMAGE PORTUGAL'S TIES TO NATO AND THE U.S. A MUTUALLY SATISFACTORY, NEGOTIATED INDEPENDENCE WOULD PRESENT NO PROBLEMS, BUT THIS DOES NOT SEEM LIKELY RIGHT NOW.

(B) WE DO NOT FORESEE SIGNIFICANT OPPOSITION TO OUR CONTINUED ACCESS TO BASE FACILITIES. THE MAJOR DEMOCRATIC PARTIES ARE WILLING TO GO ALONG; THE COMMUNISTS HAVE AVOIDED THE ISSUE; AND THE AZOREANS ARE ANXIOUS FOR OUR CONTINUED PRESENCE, NOT ONLY BECAUSE OF ITS ECONOMIC IMPORTANCE, BUT ALSO BECAUSE OF THE OVERWHELMING PRO-US SENTIMENT OF THE ISLANDERS.

(C) NEGOTIATIONS ARE LIKELY AFTER ELECTIONS. WE CAN EXPECT TO FACE DEMANDS FOR AN INCREASED QUID PRO QUO FOR BASE FACILITIES AND AN INPUT FROM THE ISLANDERS. THE LATTER WILL TEND TO CONFUSE AND DELAY THE PORTUGUESE NEGOTIATIONS, WHO HAVE NOT HAD TO CONTEND WITH THAT PROBLEM BEFORE. THE PORTUGUESE WILL HAVE THE US-SPANISH DEFENSE AGREEMENT VERY MUCH IN MIND AND WILL EXPECT TO GET MORE CONCRETE RESULTS THAN THOSE OBTAINED BY THE SALAZAR-CAETANO REGIME. FOR THE FIRST TIME, THE NEGOTIATIONS WILL BE OPEN TO PORTUGUESE PUBLIC SCRUTINY, BOTH CONFIDENTIAL

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THROUGH THE MEDIA AND THE NATIONAL ASSEMBLY -- A FACTOR WHICH THE US WILL HAVE TO TAKE INTO ACCOUNT.

(D) THE FUTURE OF THE AZORES INDEPENDENCE MOVEMENT HAS HINGED ON GOP WILLINGNESS TO GRANT SUBSTANTIAL AUTONOMY, A PRINCIPLE WHICH THE GOVERNMENT HAS ACCEPTED. COOLER HEADS ON THE ISLANDS REALIZE THE PROBLEMS A QUICK DECLARATION OF INDEPENDENCE WOULD BRING. NEVERTHELESS, A NEGOTIATING FAILURE ON AUTONOMY COULD LEAD TO A RAPID RESURGENCE OF SEPARATIST SENTIMENT. A SHARP LEFTWARD SHIFT IN MAINLAND PORTUGAL WOULD HAVE A SIMILAR EFFECT.

(E) A FORCIBLE MOVE TO INDEPENDENCE NOW WOULD REOPEN THE DOOR TO THE LEFT IN MAINLAND PORTUGAL. SUCH A MOVE COULD WELL FAIL, SINCE THE ISLANDERS ARE ONLY marginally ABLE TO DEFEND THEMSELVES AND WILL BE EVEN LESS SO AS THE PORTUGUESE ARMY RESTORES ITS DISCIPLINE. AN UNSUCCESSFUL ATTEMPT COULD LEAD TO LOSS OF THE AZORES BASE FACILITIES SINCE THE US WOULD BE BLAMED WHETHER GUILTY OR NOT. ALTHOUGH THE INDEPENDENCE MOVEMENT IS CURRENTLY QUIET, MANY RESPONSIBLE AZOREAN LEADERS FEEL INDEPENDENCE IS INEVITABLE AND DESIRABLE IN THE LONG RUN. THEY HOPE THIS CAN BE ARRANGED WITH PORTUGAL'S ACQUIESCENCE. THEIR PLAN IS TO CALL FOR A REFERENDUM ON THE ISSUE WITHIN THE NEXT SEVERAL YEARS.

2. THIRD WORLDISM AND MULTILATERAL DIPLOMACY:

(A) A HERITAGE OF THE APRIL 1974 COUP WAS THE CONCEPT THAT PORTUGAL SOMEHOW HAS A SPECIAL ROLE TO PLAY AS A "BRIDGE" BETWEEN THE THIRD WORLD AND EUROPE. ALTHOUGH THIS BELIEF HAS TENDED TO FADE IN THE FACE OF REALITY, IT IS STILL THERE AND CONDITIONS PORTUGAL'S MULTILATERAL DIPLOMACY. ITS PRINCIPAL EFFECT IS TO LEAD PORTUGAL TO VOTE AGAINST U.S. AND WESTERN INTERESTS IN MULTILATERAL

FORUMS IN ORDER TO CURRY FAVOR WITH THE THIRD WORLD.
THE ZIONISM VOTE WAS A GOOD EXAMPLE.

(B) BECAUSE OF ITS LONG INTERNATIONAL ISOLATION UNDER SALAZAR AND CAETANO, POST-COUP PORTUGAL FOUND THE OPENING OF RELATIONS WITH COMMUNIST AND THIRD WORLD COUNTRIES DARING AND EXHILARATING. SOARES AND HIS SOCIALISTS ONCE SEEMED TO BE CLOSELY ASSOCIATED WITH CONFIDENTIAL

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THE "BRIDGE" VIEW BUT HAVE NOW MOVED FAR AWAY FROM IT, AS SHOWN BY THE PS CONDEMNATION OF THE ZIONISM VOTE AND SOCIALIST OPPOSITION TO MPLA RECOGNITION. FOREIGN MINISTER ANTUNES STILL REMAINS AN ACTIVE PROPONENT OF THE "BRIDGE" THESIS, BUT IT IS LIKELY THAT BOTH HE AND THE POLICY WILL CHANGE AFTER ELECTIONS.

3. PORTUGUESE-SOVIET RELATIONS:

(A) ASSUMING PORTUGAL STAYS WHERE IT IS, THE SOVIETS ARE NOT GOING TO BE HAPPY. NONETHELESS, THEIR POSITION HERE HAS IMPROVED SIGNIFICANTLY AS COMPARED TO PRE-1974. THE USSR WILL PROBABLY CONDUCT ITS RELATIONS WITH THE GOP ON THE TWO TRADITIONAL LEVELS: STATE TO STATE; AND VIA THEIR CONDUIT, THE PORTUGUESE COMMUNIST PARTY.

(B) ON THE STATE-TO-STATE LEVEL A MAJOR CULTURAL OFFENSIVE LAUNCHED IN THE SUMMER OF 1974 HAS SUBSIDED; SIGNIFICANT SOVIET AID AND TRADE HAS NOT MATERIALIZED; AND THE PORTUGUESE NOW SEE LUSO-SOVIET RELATIONS IN A MORE REALISTIC LIGHT. WE BELIEVE MOSCOW WILL STILL KEEP ITS OAR IN, TO THE EXTENT POSSIBLE, BUT AVOID MAJOR RISKS OR COMMITMENTS.

(C) AS NOTED ABOVE, THE SOVIET UNION WILL CONTINUE TO PROVIDE AID TO THE PCP, BUT THIS WILL BE CONDITIONED BY US AND EUROPEAN REACTIONS. IT MAY BE THAT THE PCP WILL BECOME MOSCOW'S PREFERRED COMMUNIST PARTY IN WESTERN EUROPE, IN VIEW OF SOVIET CRITICISM OF THE BERLINGUER-MARCHAIS LINE AT THE RECENT CPSU CONGRESS. SUCH A POSITION, HOWEVER MUCH IT MAY HELP CUNHAL IN MOSCOW, WILL NOT HELP THE SOVIETS IN LISBON.

4. SPAIN: THE POINT NEEDS NO ELABORATION, BUT TURMOIL IN SPAIN WOULD ADVERSELY AFFECT PORTUGUESE POLITICAL EVOLUTION. IT WOULD POLARIZE THE POLITICAL CURRENTS; BOTH THE EXTREME LEFT AND RIGHT WOULD USE IT AS AN EXCUSE TO FURTHER THEIR OWN DICTATORIAL AIMS.

V. RECOMMENDATIONS

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A. POLITICAL-MILITARY: TO STRENGTHEN LINKS WITH NATO, FOCUS MILITARY ON PROFESSIONAL ROLE, AND DEVELOP INTERNAL DEFENSE CAPABILITY WE SHOULD:

-- ASSIST IN CREATING, TOGETHER WITH NATO ALLIES, AN AIR-TRANSPORTABLE BRIGADE EARMARKED FOR NATO. WE SHOULD SUPPORT THE USCINCEUR IMPACT PACKAGE CONSISTING OF ONE MECHANIZED AND ONE INFANTRY BATTALION PLUS AIR SUPPORT. THIS WILL REQUIRE QUICK DELIVERY OF SMALL NUMBERS OF TANKS, APCS, ARMORED CAVALRY VEHICLES, AND THREE TRANSPORT AIRCRAFT. THE US AND ITS ALLIES SHOULD MOVE RAPIDLY TO PROVIDE THIS MINIMUM PACKAGE IN ORDER TO GET THE PROGRAM MOVING BEFORE THE END OF CALENDAR 1976.

-- MOVE AS RAPIDLY AS FEASIBLE TOWARDS RESTORING GOP FULL ACCESS TO NATO CLASSIFIED INFORMATION.

-- CONTINUE AN ACTIVE PROGRAM OF SENDING PORTUGUESE MILITARY ON VISITS TO NATO UNITS IN EUROPE. THE PRESENT LEVEL OF 100 PER YEAR SHOULD BE EXPANDED AS PORTUGUESE CONDITIONS PERMIT.

-- CONTINUE PRESENT PROGRAM WITH NAVY FOR MAINTENANCE AND MODERNIZATION.

-- ENCOURAGE SHIP VISITS, INTERCHANGE PROGRAMS, AND JOINT TRAINING WITH US AND THE ALLIES.

B. AZORES FACILITIES: MAINTAIN UNDIMINISHED ACCESS TO US BASE FACILITIES. DO NOT INITIATE BUT RESPOND PROMPTLY AND FLEXIBLY TO THE PORTUGUESE WHEN THEY REOPEN NEGOTIATIONS.

C. ECONOMIC: TO ACHIEVE OUR OBJECTIVES OVER THE NEXT 2-3 YEARS, A DIRECT U.S. ASSISTANCE PROGRAM OF AT LEAST \$100 MILLION PER YEAR IS REQUIRED. IT WILL COMPLEMENT HOPED FOR WESTERN EUROPEAN ASSISTANCE OF ABOUT \$200 MILLION PER YEAR OVER THE SAME PERIOD, AND ADDITIONAL ASSISTANCE FROM INTERNATIONAL FINANCING INSTITUTIONS. EVERY EFFORT SHOULD BE MADE TO STIMULATE A RENEWED INFLOW OF FOREIGN CAPITAL, OR AT LEAST TO HALT THE OUTFLOW. U.S.G. ASSISTANCE SHOULD BE COMPOSED OF THE FOLLOWING:

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-- CONCESSIONAL LOANS OF \$50 TO \$60 MILLION PER YEAR FOR RAPID FUNDING OF PROJECTS IN HEALTH, EDUCATION, HOUSING, BASIC SANITATION, AND PERHPAS AGRICULTURE.

-- TECHNICAL ASSISTANCE OF \$2 MILLION PER YEAR IN A VARIETY OF FIELDS, PROVIDING BOTH U.S. CONSULTANTS AND TRAINING TO

HELP STRENGTHEN PORTUGAL'S PUBLIC INSTITUTIONS AND MANAGING ECONOMIC-DEVELOPMENT ACTIVITIES.

-- PL 480 ASSISTANCE OF \$15 TO \$30 MILLION PER YEAR TO PROVIDE NECESSARY CREDIT FOR FOOD IMPORTS.

-- HOUSING INVESTMENT GUARANTY FUNDS OF \$10 MILLION A YEAR FOR LOW INCOME HOUSING.

-- CCC CREDITS OF AT LEAST \$50 MILLION A YEAR TO FINANCE FOOD IMPORTS.

-- A RESUMPTION OF A SUBSTANTIAL EXIM BANK LENDING PROGRAM.

D. POLITICAL: IN ORDER TO SUPPORT PORTUGUESE PROGRESS TOWARDS A STABLE, WESTERN-ORIENTED AND REPRESENTATIVE GOVERNMENT, WE SHOULD:

-- CONTINUE OUR CLOSE CONTACTS WITH THE LEADERSHIP OF THE NON-COMMUNIST PARTIES. MUTUAL VISITS BY US AND PORTUGUESE POLITICAL LEADERS HAVE BEEN PARTICULARLY VALUABLE (E.G. SOARES AND SA CARNEIRO). WE SHOULD BOOST OUR LEADER GRANT PROGRAM FROM 12 TO 24 PER YEAR.

-- CONTINUE TO INDICATE DISCREETLY THAT WESTERN TRADE AND AID DEPENDS ON THE EXISTENCE OF A DEMOCRATIC GOVERNMENT. POINT OUT THE PROBLEMS POSED FOR THE WESTERN ALLIANCE AND THE EEC IF THE PCP IS PART OF A GOVERNMENT COALITION.

-- ENCOURAGE FINANCIAL AND OTHER SUPPORT FOR NON-COMMUNIST UNIONS BY US AND EUROPEAN DEMOCRATIC LABOR ORGANIZATIONS.

-- CONTINUE TO MAINTAIN CLOSE CONTACT WITH THE ROMAN
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CATHOLIC HIERARCHY. ENCOURAGE CHURCH SUPPORT FOR MODERATE POLITICAL AND ECONOMIC POLICIES.

-- AVOID MORAL OR OTHER SUPPORT FOR ULTRA-RIGHT ORGANIZATIONS INSIDE AND OUTSIDE PORTUGAL. AT THE SAME TIME ENCOURAGE CONSERVATIVE ELEMENTS TO WORK WITH THE LEGITIMATE PARTIES ON THE RIGHT.

-- MAINTAIN A STRONG US CULTURAL PRESENCE THROUGH BOOSTING CURRENT LEVEL OF 18-20 EVENTS PER YEAR TO 30.

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